Quarterly Report

Quarter 3: 2019 - 2020
Period ended: 31 March 2020

NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

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A. March quarter issuance and highlights summary

Quarter	Total	Bespoke Maturity	April 2020	May 2021	April 2022	April 2023	April 2024	April 2025	April 2027	April 2029	April 2033
Bonds issued $m	**400**	N/A	-	-	155	50	73	-	-	122	-
Term Loans to councils $m	**800.3**	239.8	-	-	56.5	-	83.0	276.0	40.0	105.0	-
Term Loans to councils #.	**50**	23	-	-	3	-	7	10	5	2	-

Year to date	Total	Bespoke Maturity	April 2020	May 2021	April 2022	April 2023	April 2024	April 2025	April 2027	April 2029	April 2033
Bonds issued $m	**1,505.0**	N/A	-	-	345	50	238	30	-	632	210
Term Loans to councils $m	**1,532.4**	717.9	-	-	67.0	16.0	156.0	276.0	86.0	189.0	24.5
Term Loans to councils #.	**133**	74	-	-	5	4	18	10	10	10	2

Key points and highlights for the March quarter:

- The LGFA bond curve steepened for the second consecutive quarter with front end yields falling (2023 yields down 0.23%) and back end yields rising (2033 yields up 0.17%). The RBNZ easing of monetary policy by cutting the OCR by 0.75% (to 0.25%) and implementing quantitative easing through the purchase of NZGBs dragged short dated yields lower while the outlook for a substantial increase in NZGB issuance to pay for the Central Government COVID-19 response placed upward pressure on long dated yields.
- LGFA issued $400 million of retail bonds across four maturities during the quarter via two tenders. LGFA also issued $130 million of a 2.5-year wholesale Floating Rate Note via a private placement. The average term of issuance during the quarter of 4.79 years was much shorter than the previous quarter at 7.56 years although year to date issuance average term of 7.35 years is longer than the average term of 6.62 years for the 2018-19 year.
- LGFA margins to swap widened between 15 bps (2022s) and an astonishing 81 bps (2033s) over the quarter. The increased NZGB issuance led to swap spreads going negative to NZGB (swap yields below NZGB yields) and this pushed our spreads wider. LGFA spreads to NZGB widened between 10 (2025s) bps and 42 bps (2033s) from a flight to quality and increasing dislocation in credit markets.
- Long dated lending to council borrowers during the quarter was a record $800.3 million. The average term of lending during the quarter at 5 years was shorter than the 2019-20 financial year to date average of 5.9 years.
- LGFA has estimated market share of 83% of total council borrowing for the rolling twelve-month period to March 2020 (compared to a historical average since 2012 of 74%). We provided 80% of council borrowing during the March 2020 quarter.
- Short-term lending remains strongly supported by councils with loans outstanding of $461.5 million as at 31 March 2020. This was a decrease of $64 million over the quarter as councils extended their borrowing into longer tenors while the number of councils using this product reduced by two to twenty-nine.
- LGFA Net Operating Gain (unaudited) for the nine-month period to 31 March 2020 was $8.538 million or $113k below budget with Net Interest Income $429k below budget and expenses $316k below budget.

- One new council joined LGFA over the quarter (Carterton District Council), increasing the number of councils to sixty-seven councils. There are fifty-three council guarantors as at 31 March 2020. We are expecting a further four councils to join over the next twelve months.

B. LGFA bond tenders during quarter

LGFA held two bond tenders during the quarter.

Tender 69: 5 February 2020 $200 million

Tender 69- 05 February 2020	14-Apr-22	15-Apr-24	20-Apr-29
Total Amount Offered ($million)	75	50	75
Total Amount Allocated ($million)	75	50	75
Total Number of Bids Received	11	12	18
Total Amount of Bids Received ($million)	122.5	86	138
Total Number of Successful Bids	8	5	10
Highest Yield Accepted (%)	1.395	1.520	2.070
Lowest Yield Accepted (%)	1.365	1.505	2.040
Highest Yield Rejected (%)	1.415	1.555	2.180
Lowest Yield Rejected (%)	1.395	1.520	2.070
Weighted Average Accepted Yield (%)	1.381	1.513	2.058
Weighted Average Rejected Yield (%)	1.401	1.513	2.102
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	21.4	75	38.5
Coverage Ratio	1.63	1.72	1.84
NZGB Spread at Issue (bps)	36.00	44.00	73.00
Swap Spread at Issue (bps)	25.00	35.00	61.50
Swap Spread: AA council (bps)	37	46.5	71.5
Swap Spread: AA- council (bps)	42	51.5	76.5
Swap Spread: A+ council (bps)	47	56.5	81.5
Swap Spread: Unrated council (bps)	57	66.5	91.5
Coverage Ratio	1.63	1.72	1.84

The tender result was a good result given the recent market volatility and investor concerns regarding the Housing NZ issuance programme. While bidding strength wasn't large in terms of volumes, the weighted average yields were 1 bps to 2 bps above prevailing mid rates. The tender size of $200 million was the largest since November 2018 and above the historic average tender size ($166 million). Council borrowing demand was large at $258.5 million as councils refinanced their April 2020 loans and undertook new borrowing. Council loans at the previous two tenders averaged only $57 million. Bidding volume was softish with the overall bid coverage ratio of 1.73x slightly below the 1.83x in the last tender and less than the average of 2.4x for the past twelve months. The average maturity of the LGFA bonds issued was 5.3 years so the tender was larger in terms of volume and shorter in terms of duration.

Tender 70: 11 March 2020 $200 million

Tender 70- 11 March 2020	14-Apr-22	15-Apr-23	15-Apr-24	20-Apr-29
Total Amount Offered ($million)	60	50	50	40
Total Amount Allocated ($million)	80	50	23	47
Total Number of Bids Received	10	11	8	18
Total Amount of Bids Received ($million)	87	78.5	28	70
Total Number of Successful Bids	8	6	7	13
Highest Yield Accepted (%)	1.200	1.275	1.380	1.960
Lowest Yield Accepted (%)	1.150	1.200	1.310	1.855
Highest Yield Rejected (%)	1.230	1.320	1.420	2.055
Lowest Yield Rejected (%)	1.210	1.275	1.420	1.960
Weighted Average Accepted Yield (%)	1.187	1.258	1.342	1.930
Weighted Average Rejected Yield (%)	1.224	1.289	1.420	2.019
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100	46	100	80
Coverage Ratio	1.45	1.57	0.56	1.75
NZGB Spread at Issue (bps)	45.00	56.00	60.00	90.00
Swap Spread at Issue (bps)	39.50	45.40	51.75	88.25
Swap Spread: AA council (bps)	52.25	61	64.75	98.25
Swap Spread: AA- council (bps)	57.25	66	69.75	103.25
Swap Spread: A+ council (bps)	62.25	71	74.75	108.25
Swap Spread: Unrated council (bps)	72.25	81	84.75	118.25
Coverage Ratio	1.45	1.57	0.56	1.75

The bond tender outcome was very challenging but was expected given the conditions in global financial markets with the resulting historic lows in yields set, lowest bid coverage ratio, widest successful bid ranges and widest gap between average issuance yield and prevailing market yields at time of bidding. The tender result was the worst result in the 70 tenders we have conducted but understandable given the market volatility and lack of depth in global capital markets. Both bidding volumes and price tension was poor, and we had to under accept the 2024 (we only received $28 million of bids for $50 million of bonds offered) and over accept the 2022s and 2029s to ensure we issued $200 million of bonds. Council borrowing demand was strong at $199 million from eleven councils who refinanced their April 2020 loans as well as additional new borrowing. Average term of lending at 8.25 years was long by historical standards.

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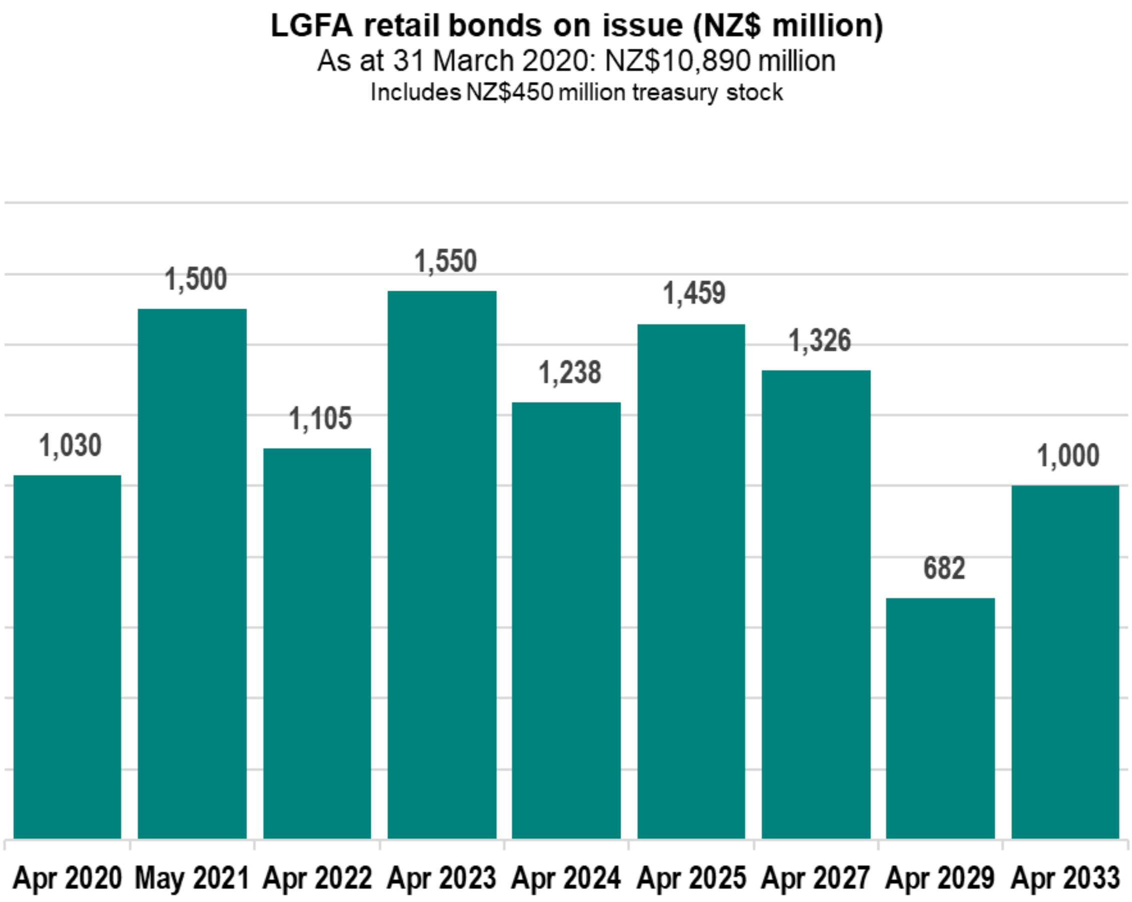
We tendered four tranches in order to capture as much demand as possible but kept the maturities shorter dated given the market fragility. We reopened the 2023 bond maturity following the board decision to increase the self-imposed cap to $1.75 billion. The average maturity of the LGFA bonds issued was a very short 4.25 years compared to the average for the current 2019/20 financial year of 7.35 years, so the tender was again larger in terms of volume and shorter in terms of duration.



In addition to the retail bonds listed on the NZDX, LGFA has NZ$130 million of Wholesale Floating Rate Notes on issue

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C. Key performance indicators (Section 5 of SOI)

Section 5 of the SOI sets out the ten key performance targets

We have met (or on track to meet) eight out of our ten performance targets. We are currently behind on the Net Interest Income target (but could still meet this by year end) while we won't achieve the council visit target given the current COVID-19 operating environment.

Measure		**Prior full year to June 2019**	**Q1 30 Sept 2019**	**Q2 31 Dec 2019**	**Q3 31 Mar 2020**	**Q4 30 June 2020**
LGFA net interest income for the period to June 2020 will be greater than $17.88 million	Target ($)		**$4.79 m (YTD as at Q1)**	**$9.38 m (YTD as at Q2)**	**$14.57 m (YTD as at Q3)**	**$17.88 m (FULL YEAR)**
	Actual ($)	$18.76 m	$4.08 m ✘	$9.81 m ✔	$14.14m ✘	
Annual issuance and operating expenses (excluding AIL) will be less than $6.30 million	Target ($)		**$1.45 m (YTD as at Q1)**	**$3.08 m (YTD as at Q2)**	**$4.70 m (YTD as at Q3)**	**$6.30 m (FULL YEAR)**
	Actual ($)	$5.85 m	$1.47 m ✘	$3.05 ✔	4.50m ✔	
Total lending (short and long term) to participating councils to be at least $9.79 billion	Target ($)		**$9.63 b (YTD as at Q1)**	**$9.90 b (YTD as at Q2)**	**$10.04 b (YTD as at Q3)**	**$9.79 b (FULL YEAR)**
	Actual ($)	$9.26 b	$9.737 b ✔	$10.106 b ✔	$10.658b ✔	
Conduct an annual survey of councils and achieve 80% satisfaction score as to the value added by LGFA to council borrowing activities	Target ($)		**Annual Survey in July each year**			
	Actual (%)	80%	July 2019 survey outcome of 100% ✔			
Meet all lending requests from PLAs	Target (%)		**100%**	**100%**	**100%**	**100%**
	Actual (%)	100%	100% ✔	100% ✔	100% ✔	
Achieve 75% market share of all council borrowing in New Zealand	Target (%) Rolling annual average		**>75%**	**>75%**	**>75%**	**>75%**
	Actual (%)	87.3%	87.1% ✔	87.7% ✔	83.0% ✔	
Review each PLA financial position, its headroom under LGFA policies and arrange to	Target (number)		**Council visits to total 65 over one year Financial Position + Headroom Review Undertaken in December Quarter**			

meet each PLA at least annually	Actual		2 council visits but on track to achieve annual target **In progress**	29 council visits year to date and on track to achieve annual target **In progress**	53 council visits year over past 12 months. **In progress**	Will not be achieved diue to COViD-19 restrictions ✗
No breaches of Treasury Policy, any regulatory or legislative requirements including H&S	Target (zero breaches)		**nil**	**nil**	**nil**	**nil**
	Actual	One	Nil ✓	Nil ✓	Nil ✓	
Successfully refinance of existing loans to councils and LGFA bond maturities as they fall due	Target (%)		**100%**	**100%**	**100%**	**100%**
	Actual (%)	100%	100% ✓	100% ✓	100% ✓	
Maintain a credit rating equal to the New Zealand Government rating where both entities are rated by the same credit rating entity	Target (equivalence)		**AA+/AA+**			
	Actual	AA+/AA+	AA+/AA+ ✓	AA+/AA+ ✓	AA+/AA+ ✓	

D. Summary financial information (provisional and unaudited)

Financial Year ($m)	**YTD as at Q1**	**YTD as at Q2**	**YTD as at Q3**	**YTD as at Q4**
Comprehensive income	**30-Sep-19**	**31-Dec-19**	**31-Mar-20**	**30-June-20**
Interest income	90.86	185.07	278.46	
Interest expense	86.78	175.26	264.75	
Net interest revenue	**4.08**	**9.81**	**13.71**	
Issuance and On-lending costs	0.61	1.20	1.79	
Approved issuer levy	Nil	0.65	0.67	
Operating expenses	0.86	1.86	2.71	
Issuance and operating expenses	**1.47**	**3.70**	**5.17**	
Net Profit	**2.61**	**6.11**	**8.54**	

Financial position ($m)	**30-Sep-19**	**31-Dec-19**	**31-Mar-20**	**30-Jun-20**
Retained earnings + comprehensive income	50.61	54.10	56.53	
Total assets (nominal)	10,310.80	10,705.14	11,592.31	
Total LG loans (nominal)	9,737.23	10,110.90	10,653.28	
Total LGFA bills (nominal)	463.00	403.50	635.50	
Total LGFA bonds (nominal)	9,555.00	10,040.00	10,440.00	
Total borrower notes (nominal)	148.81	153.31	163.07	
Total equity	75.61	79.10	81.53	

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E. Performance against SOI objectives and performance targets

Primary objectives (Section 3 of SOI)

1. Providing savings in annual interest costs for all Participating Local Authorities on a relative basis to other sources of financing

LGFA lending base margins are 20 bps for all borrowing terms between April 2020 and April 2033 following an increase of 10 bps in March 2020. We had previously reduced margins in June 2018 but the LGFA Board decided at its March 2020 Strategy Day to increase capital following its biennial Capital Structure Review. The base margin charge covers our operating costs and provides for our capital to grow in line with the growth in our balance sheet to maintain a capital buffer. There is an additional credit margin added to the base margin depending upon whether a council has a credit rating or is a guarantor or not a guarantor.

Our estimated annual savings to councils that are based upon the secondary market levels at 31 March 2020 of LGFA bonds compared to bonds issued by Auckland and Dunedin councils are between 3 bps and 16 bps depending upon the term of borrowing. The amount of savings has improved over what was a very volatile quarter. Borrowing margins of all issuers have moved wider over the past quarter but LGFA borrowing margins moved less than other borrowers. LGFA bonds are generally priced over New Zealand Government Bonds (NZGB) and it has been unhelpful that the spread between swap and NZGB has turned negative (swap yields below NZGB yields).

31-Mar-20	**Savings to AA rated councils (bps)**			
	Dunedin 2020	Dunedin 2021	Auckland 2022	Auckland 2025
AA rated councils' margin to swap (bps)	46	64	70	91
Less LGFA margin to swap (bps)	-20	-28	-38	-68
LGFA gross funding advantage (bps)	26	36	32	23
Less LGFA base margin (bps)	-20	-20	-20	-20
Total savings (bps) *	6	16	12	3

Note that from 30 June 2017 we removed the implied "LGFA effect" of 10 bps of additional savings in borrowing costs from the above analysis. The LGFA effect was the assessment of immediate savings to councils when LGFA first commenced lending to councils in February 2012.

LGFA continues to borrow at very competitive spreads compared to the AAA rated SSA issuers who borrow in the New Zealand debt capital markets and to the domestic banks.

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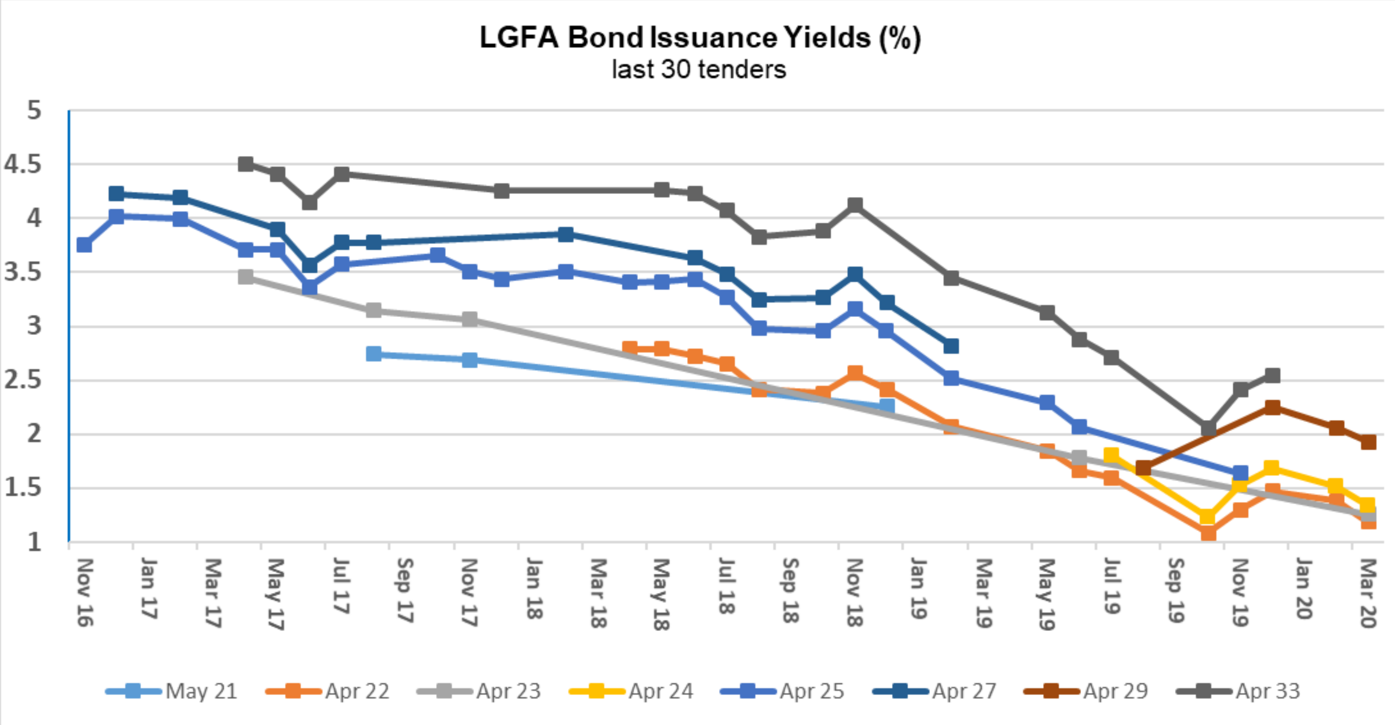
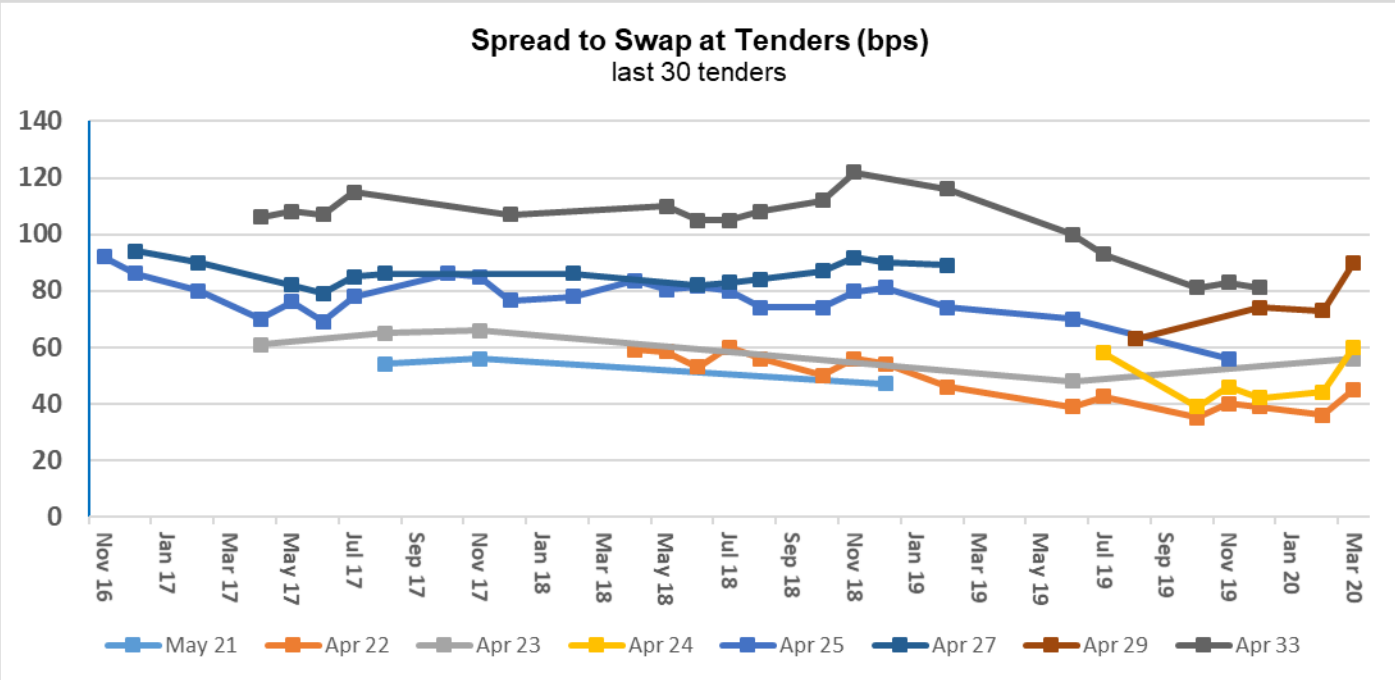
As at 31 March 2020	Comparison to other borrowers - Secondary Market Spread to Swap (bps)									
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
LGFA (AA+)	18	28	38	47	57	68		79		97
Asian Development Bank (AAA)		38		43	50		63			
Inter-American Development Bank (AAA)		38		45	54				92	
International Finance Corp (AAA)	28	36		49	53			73		
KBN (AAA)		46		59	62	71				
Rentenbank (AAA)	26	44	49	51	57					
World Bank (AAA)		33	42	44	50	54				
Nordic Investment Bank (AAA)		34		46		66				
ANZ (AA-)	86	115		155	160					
BNZ (AA-)	71			143		161				
Westpac Bank (AA-)			135	145	160	168				

The LGFA bond curve steepened for the second consecutive quarter with front end yields falling (2023 yields down 0.23%) and back end yields rising (2033 yields up 0.17%). The RBNZ easing of monetary policy by cutting the OCR by 0.75% (to 0.25%) and implementing quantitative easing through the purchase of NZGBs dragged short dated yields lower while the outlook for a substantial increase in NZGB issuance to pay for the Central Government COVID-19 response placed upward pressure on long dated yields.
LGFA bond yields are at historic lows and are between 0.83% lower (2023s) and 0.22% lower (2033s) compared to March 2019.

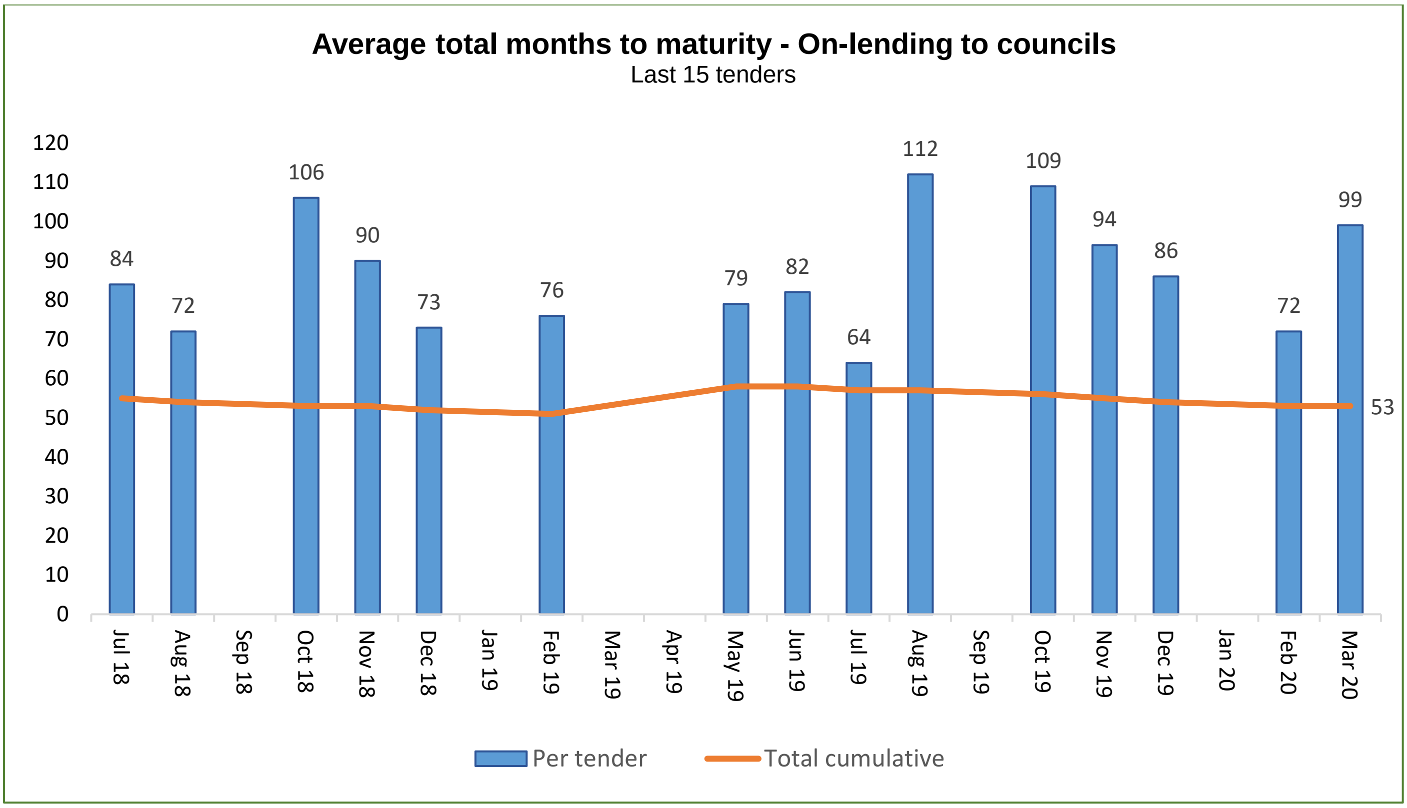
We closely monitor the Kauri market for ongoing supply and price action as this other high-grade issuance by “AAA” rated Supranational issuers such as the International Finance Corporation (IFC), Inter-American Development Bank (IADB) and the Asian Development Bank (ADB) influences LGFA demand and pricing. These borrowers are our peer issuers in the NZD market and have the most influence on our pricing. The March quarter was another quiet period for Kauri bond issuance with issuance of $900 million compared to $1.65 billion in the same quarter a year ago. Reduced offshore investor demand for NZD product as well as more attractive borrowing spreads for issuers in the US and European markets has led to the fall in issuance activity.





2. Offering short and long-term borrowings with flexible lending terms

The average borrowing term (excluding short dated borrowing) for the March 2020 quarter by council members was 5.0 years and this was shorter than the 5.9-year average term for the year to date period and 6.0 years average term for the previous 2018-19 year.



Short term borrowing by councils has been well received with loan terms to date of between one month and 12 months of $461.5 million outstanding as at 31 March 2020 to twenty-nine councils. The small decline in the number of councils using this product (by two) and fall in total amount ($64 million) over the quarter is due to councils extending their term of borrowing beyond one year and the seasonality of council borrowing.

3. Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice

LGFA bonds were listed on the NZX Debt Market in November 2015 and average turnover on the NZX Debt market has been $10.5 million per month or 7.8% of the total turnover of the NZX Debt Market. Turnover on the NZX remains light as retail investors are more attracted to high term deposit rates and higher yielding bond issues by lower credit quality borrowers.

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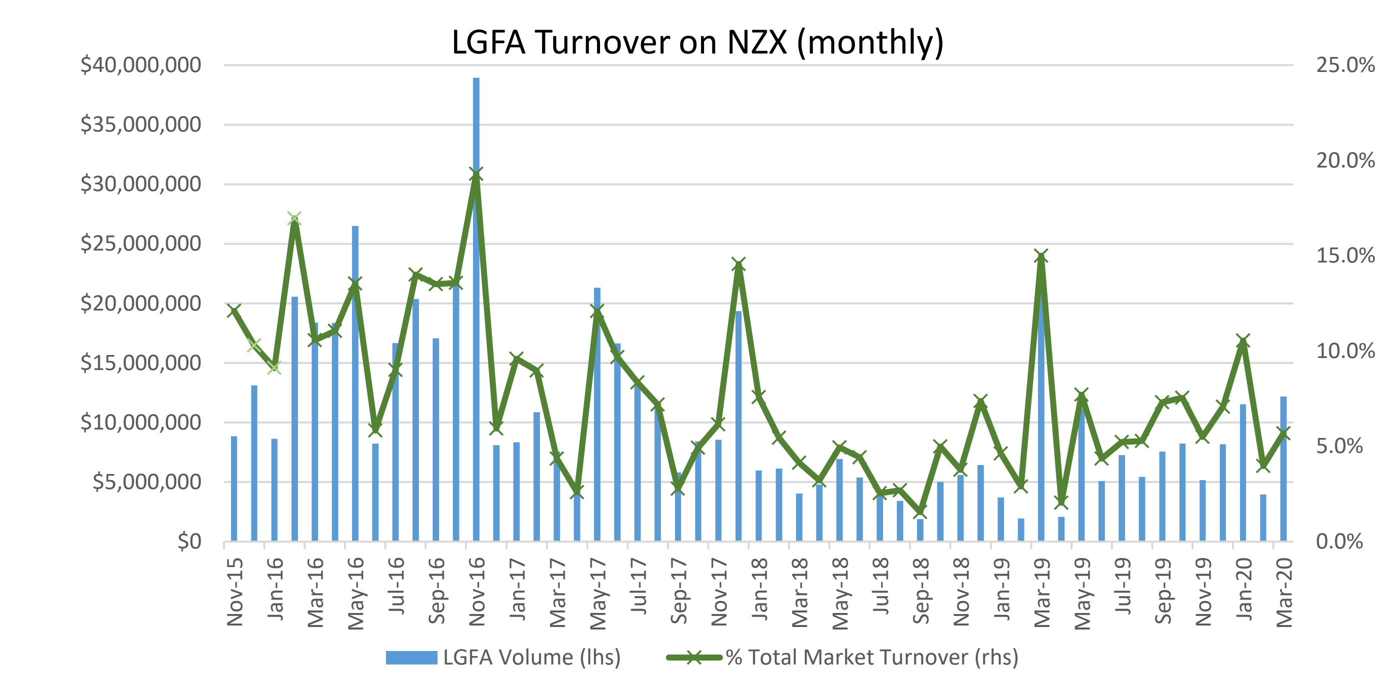
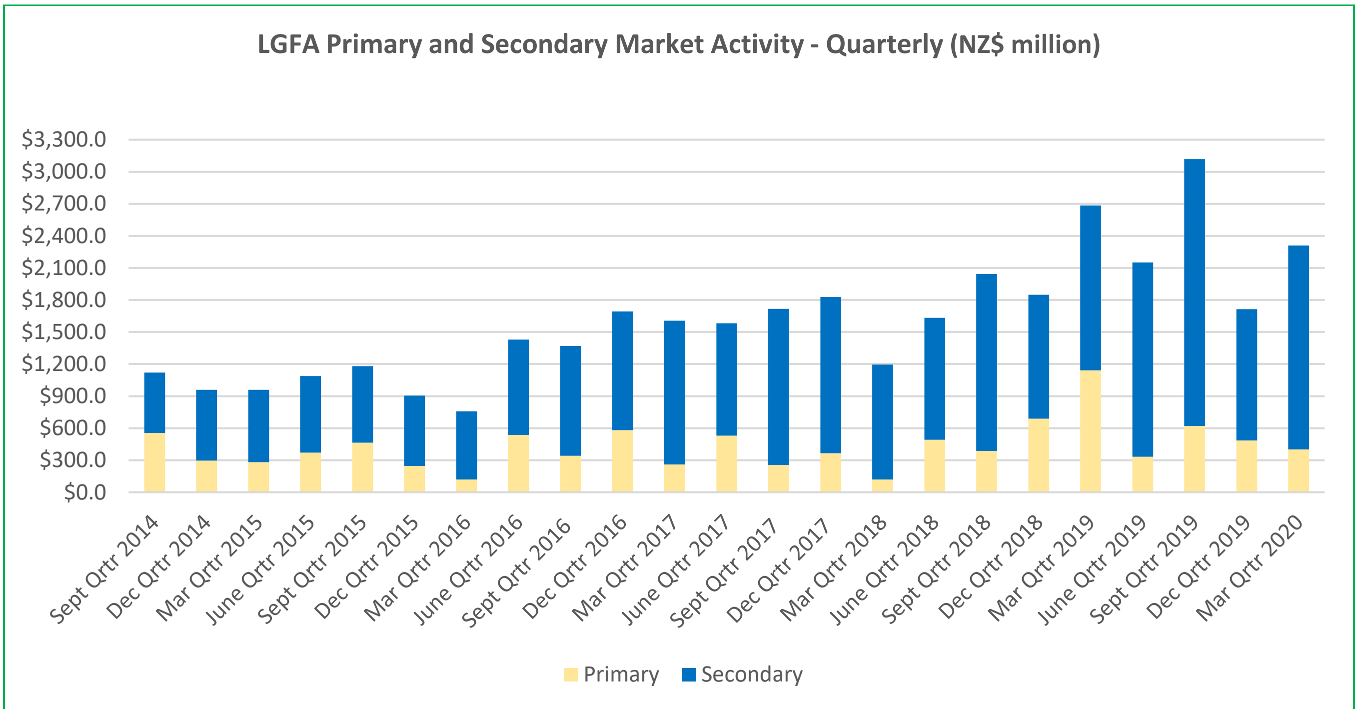


Activity in LGFA bonds in both the primary market (tender or syndicated issuance) and secondary market (between banks and investors) during the quarter was strong with combined activity the third highest on record. There was $400 million of primary issuance and we estimate there was $1.91 billion of secondary market activity in LGFA bonds during the quarter.



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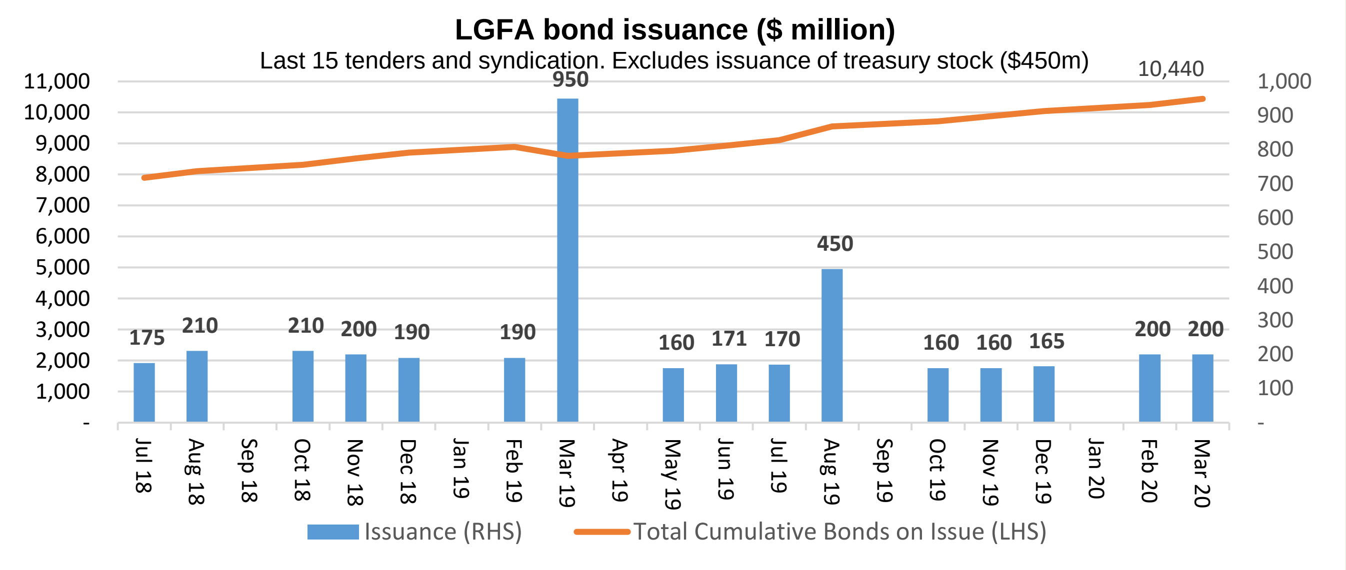
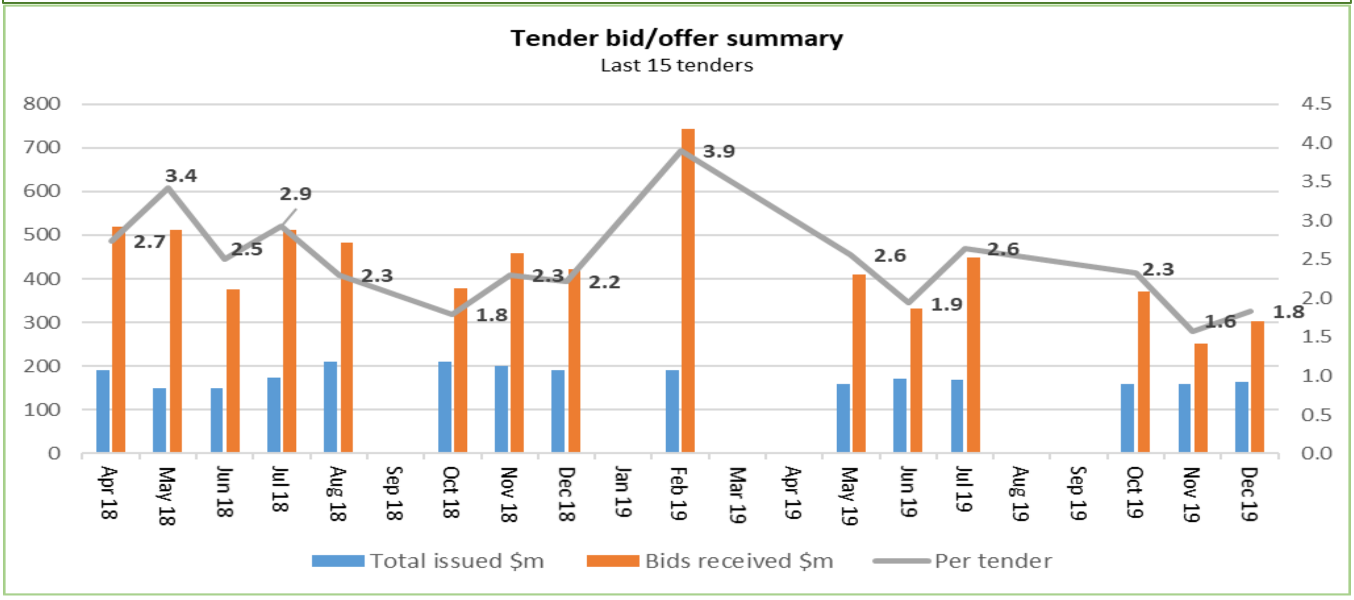
LGFA started issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 31 March 2020 there were LGFA Bills of $635.5 million on issue and short-term council loans of $461.5 million.

LGFA documented an Australian Medium-Term Notes Programme in November 2017 and we have refreshed the programme documents during the quarter. We have no immediate intention to use this programme, but it provides flexibility if there is a significant market disrupting event in the future.

We held two LGFA bond tenders during the quarter and market support was poor with lower bid coverage ratios and wider bid ranges than in previous quarters. The poor sentiment was from the crowding out of domestic capital markets by the NZ Government with its substantial increase to its borrowing programme and sharp falls in equity markets. After the quarter end, market conditions deteriorated further in the first week of April before recovering strongly over the rest of the month.





4. Being the debt funder of choice for New Zealand local government

We use the Local Government Debt Report compiled by PwC as our source of market share. Our estimated market share of council borrowing for the March 2020 quarter was 80% and for the rolling twelve-month period to 31 March 2020 was 83%. This compares to a historical average since 2012 of 73%.

We survey our council members each year and the latest stakeholder survey result in July 2019 was a 100% result to the question "How would you rate LGFA in adding value to your borrowing requirements?". We also received a 99% result to the question "How satisfied are you with the pricing that LGFA has provided to your Council?"

5. LGFA will monitor the quality of the asset book so that it remains of a high standard by ensuring it understands each Participating Local Authority's financial position and the general issues confronting the Local Government sector. This includes

(i) LGFA will review each Participating Local Authority's financial position, its financial headroom under LGFA policies and endeavour to visit each Participating Local Authority on an annual basis

(ii) Implement the changes to the Foundation Policies that were approved at the November 2018 AGM to allow for lending to CCOs. Changes to operational policies and practices need to ensure that no additional risk is borne by lenders, guarantors or the Crown and

(iii) LGFA will analyse finances at the Council group level where appropriate and report to the Shareholder Council and shareholders as to which Participating Local Authorities are measured on a group basis.

LGFA had meetings with seven councils during the March quarter (and seventy visits to fifty-three different councils for the twelve-month period to March 2020) to discuss their financial performance and any developments with the underlying council operations. LGFA reviews council agendas and management reports on an ongoing basis for those councils on the LGFA borrower watch-list. Meetings going forward will be less given the travel and meeting restrictions imposed by the Central Government response to COVID-19.

At the November 2019 AGM, shareholders approved the changes to the Shareholder Agreement, Notes Subscription Agreement ("NSA"), Multi Issuer Deed ("MID") and Guarantee and Indemnity Deed ("GID") and Foundation Policies to allow for lending to CCOs and to offer standby facilities. The NSA, MID and GID are currently with our sixty-seven council members for signing (where relevant) which is required before we can rollout these products.

No council has yet to request to LGFA that they be measured on a group basis.

6. LGFA will take a proactive role to enhance the financial strength and depth of local government debt market and work with key central government and local government stakeholders on sector and individual council issues

During the quarter, LGFA management met representatives from Treasury, investment banks and advisers to discuss both the local government sector in general and how LGFA can play a role in providing solutions to off balance sheet financing. We are providing technical input into the Cameron Partners Ratepayer Financing Scheme (RFS).

LGFA has been a member of the Department of Internal Affairs led workstream on assessing the impact of COVID-19 on council finances.

Post the end of the quarter there were two important developments. The Minister of Finance on 1st April announced that the NZ Government will extend the Crown liquidity facility due to expire in December 2021 and the Reserve Bank of New Zealand ("RBNZ") announced on 7th April that they will purchase up to $3 billion of LGFA bonds as part of their Large Scale Asset Purchase Programme ("LSAP").

Additional objectives (Section 3 of SOI)

7. Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy

LGFA's Net Operating Gain on an unaudited management account basis of $8.65 million for the first nine months of the financial year implies that we will be close to achieving the full year SOI financial forecast of $10.016 million. The average cost of funds for the first nine months of the current 2019-20 financial year is 1.71% and this will reduce further as we undertake more issuance in the June 2020 quarter. This is lower than the 2.78% for the prior 2018-19 financial year due to the lower outright level of interest rates. The LGFA Board has the sole discretion to set the dividend.

8. Provide at least 75% of aggregate long-term debt funding for Participating Local Authorities

As noted previously, we use the Local Government Debt Report compiled by PwC as our source of market share. Our estimated market share of council borrowing for the rolling twelve-month period to 30 March 2020 was 83%. This compares to a historical average since 2012 of 73% and our market share remains strong compared to our global peers.

As at 31 March 2020, there are sixty-seven participating local authority members of LGFA. This was an increase of one over the quarter (Carterton District Council) and we estimate a further four councils could become members in the next twelve months.

9. Achieve the financial forecasts (excluding the impact of AIL) set out in Section 4

As at the end of the third quarter, Net Interest Income (“NII”) was estimated by management on an unaudited basis to be $429k below budget while expenses are $316k below budget. Net Operating Gain of $8.65 million was $113k below budget. Included in the NII is the unrealised mark to market movement in fixed rate swaps that are not designated effective for hedge accounting purposes. We have used these swaps to reduce exposure to fixed rate loans made outside of the normal tender process and to reduce mismatches between time buckets in our balance sheet. The unrealised loss increases as interest rates fall and the year to date revaluation is a loss of $1 million.

10. Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses

Expenses for the six-month period on an unaudited, management basis were $5.169 million which is $316k below budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding AIL) at $1.795 million were $59k below budget. Lower fees than budgeted relating to the NZDMO facility were offset by higher NZX costs and legal costs. A larger amount of bond issuance and short-term lending increased these costs relative to budget.

- Operating costs at $2.706 million were $140k below budget due to lower IT, personnel and general overhead costs offset by slightly higher legal costs relative to budget.

- Approved Issuer Levy (AIL) payments of $668k were $117k below SOI forecast. We pay AIL on behalf of offshore investors at the time of semi-annual coupon payment. During the nine-month period, offshore investor holdings of LGFA bonds were less than forecast.

11. Take appropriate steps to ensure compliance with the Health and Safety at Work Act 2015

LGFA has a Health and Safety staff committee and reporting on Health and Safety issues are made to the LGFA board on a regular basis by the Risk and Compliance Manager. There were no Health and Safety incidents during the quarter. LGFA staff transitioned seamlessly to a work from home environment as the country moved beyond Level 2 in the COVID-19 response.

12. Maintain LGFA’s credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency

LGFA has an annual review process regarding our credit ratings from Standard and Poor's ("S&P") and Fitch Ratings ("Fitch") and meets with both agencies at least annually. Meetings were last held in November 2019 with S&P and in September 2019 with Fitch.

On 28 February 2020, S&P affirmed our long-term local currency credit rating as AA+ and our long-term foreign currency credit rating of AA. Both ratings remained on positive outlook. Both credit ratings and outlook are the same as the New Zealand Government

On 18 November 2019, Fitch reaffirmed our long-term local currency credit rating as AA+ and classified LGFA as a corporate mission, government related entity (GRE) under its GRE rating criteria. Fitch equalises our ratings with those of the New Zealand Government. On 28 January 2020 Fitch placed our foreign currency credit rating of AA on positive outlook. Fitch left the local currency credit rating unchanged at AA+ with a stable outlook.

13. Introduce CCO lending by December 2019 and report quarterly, the volume of lending to CCOs to both the Shareholder Council and shareholders

We now expect to commence lending to CCOs once the NSA, MID and GID documents have been signed by councils. This has been delayed due to COVID-19 disruptions, but we expect to launch in the 2020-21 year.

14. Comply with its Treasury Policy as approved by the Board

There were no compliance breaches at any time during the three-month period ending 31 March 2020.

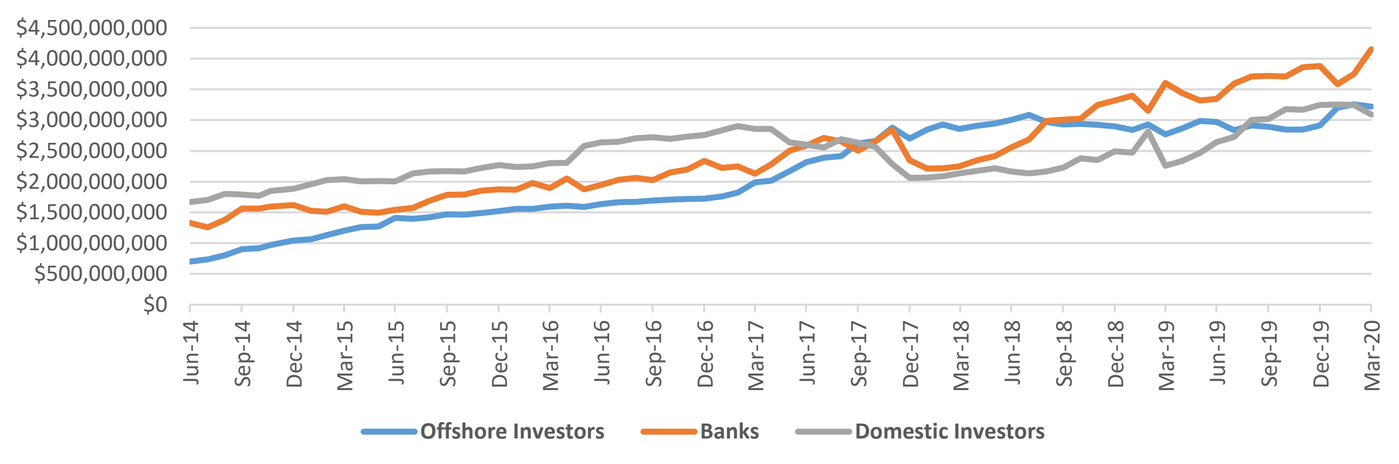
Policy	Limit	Policy page ref	Continuous Compliance
One-month Liquidity Monitor	>120%	S1-1.1	Yes
Three Month Liquidity Monitor	>110%	S1-1.2	Yes
Twelve Month Liquidity Monitor	>110%	S1-1.3	Yes
Council Exposure (any 12-month period)	<10% of Balance Sheet	S1-1.5	Yes
Liquidity Buffer	>110%	S1-1.4	Yes
Partial Differential Hedge (PDH Interest Rate Gap Report	$40,000	S3-4.1	Yes
Value at Risk (VaR)	$250,000	S3-4.2	Yes
Council Maturity (any 12-month period)	$100m or 33% of LGFA borrowing	S1-1.6	Yes
Funding Largest Council Exposure	>100%	S1-1.7	Yes
Foreign Exchange Exposure	Nil	S7-3.1	Yes
NZDMO Facility Utilisation	Report monthly	S8-8.5	Yes
Counterparty Credit Limits	80% of Portfolio $125m Counterparty (category 3)	S4	Yes
Auckland Council Exposure (proportion of total Council exposure)	<40%	S1-1.8	Yes
Balance Sheet Maturity Mismatch	<15% of Balance Sheet	S2-2.1	Yes
Financial Covenants	Various (as set out on p13)	S9	Yes
Authorising Treasury transactions	Two approvers, one signature	S8-8.4	Yes

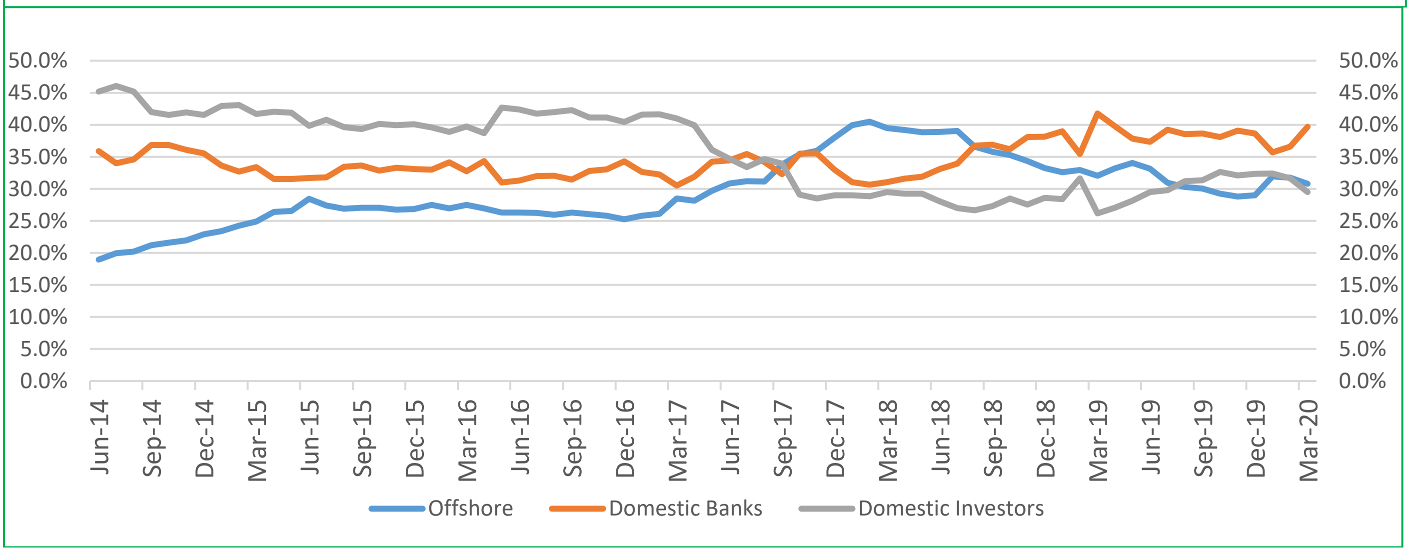
F. Investor relations / outlook

Managing relations with our investor base is very important as the amount of LGFA bonds on issue has yet to peak and we require investors and banks to support our tender issuance.

Domestic banks and offshore investors increased their holdings over the March 2020 quarter as LGFA bonds remain attractive on a spread to underlying NZGBs and investors chasing yield in the current low interest rate environment. By our estimates

- Offshore investors increased their holdings of LGFA bonds by $307 million over the quarter (and increased by $454 million over the past twelve months). Offshore investors are estimated to hold $3.22 billion (30.8% of outstandings) compared to $2.77 billion (32.1% of outstandings) a year ago.
- Domestic institutional and retail investors reduced their holdings by $187 million over the quarter and were estimated to hold $3.09 billion (29.5% of outstandings) compared to $2.25 billion (26.1% of outstandings) a year ago.
- Domestic banks holdings have increased by $300.2 million over the quarter. Bank holdings of $4.15 billion (39.7% of outstandings) are at a record high in dollar terms and compare favourably to $3.61 billion (41.8% of outstandings) a year ago.





Quarterly Report

Quarter 3: 2019 - 2020
Period ended: 31 March 2020

G. Key trends